



City of Seattle

Office of City Auditor

Susan Cohen, City Auditor

Date: November 2, 2000

To: Dwight Dively
Director, Executive Services Department

From: Susan Cohen

Re: Unclaimed Property Review

This memo documents and completes our work performed regarding (a) the destruction of records which supported potential credits to taxpayers, and (b) tax refund credits placed in a holding account by the Division of Revenue and Consumer Affairs (RCA).

Background

This work was initiated by an allegation that staff in the City's RCA Division had accelerated the disposal of taxpayer records after a reporter contacted the City on October 12, 1999 regarding the issue of tax refunds.

Conclusion

We found no evidence that files were disposed of after the reporter contacted the City on October 12, 1999.

On November 15, 1999, we verified with the company hired by the City to perform on-site shredding of RCA documents that no RCA documents had been shredded since August 23, 1999. In addition, we found no indication that RCA staff were instructed by their supervisor or any other member of the RCA management team to accelerate the purging of records after the reporter contacted the City. On October 13, 1999, one day after the reporter contacted the City, RCA staff moved bins containing documents scheduled for shredding from a hallway to a locked room. We found no evidence that any of the documents in the bins were destroyed after they were moved.

RCA placed pre-1994 credits in taxpayers accounts into a "holding account".

In 1997 RCA transferred all pre-1994 credit balances identified in taxpayers accounts to a "holding account". Credit balances could result from an actual overpayment, a misapplied payment, or an input keying error by the City's data entry employees. RCA management believed that the two-year statute of limitations contained in the Seattle Municipal Code¹ applied to these credit balances.

¹ The Seattle Municipal Code statute of limitations for taxpayers to request a credit increased in 1999 from a two-year to a four-year period (Seattle City Ordinance Number 119257).



History

RCA administers both regulatory licenses and revenue licenses and taxes.

Prior to 1996, RCA stored account information electronically on the Department of Licensing Information System (DLIS). The DLIS system did not readily produce notices for credit balances. As a result, many accounts with credit balances were not identified or researched, and the credit balance was not verified or refunded by RCA in a timely manner. In 1996 RCA replaced DLIS with the Seattle Licensing and Information Management (SLIM) System. SLIM is programmed to automatically produce a taxpayer credit notice if the account shows a credit balance exceeding five dollars (\$5).

Before 1999, the Seattle Municipal Code (“SMC”) Chapter 5.44, which governs licenses for revenue and taxes, contained a provision that prohibited RCA from refunding revenue license fees or taxes more than two years old. In 1997, RCA initiated a program to examine the account information in SLIM and to remove pre-1994 credit amounts from taxpayer accounts that RCA considered to fall outside the two-year SMC statute of limitations. To remove the pre-1994 credit amounts from the taxpayer accounts, RCA created a “holding” account to store all of the pre-1994 taxpayer credits. As of November 30, 1999, the “holding” account balance containing pre-1994 credits totaled approximately \$315,000.

In conjunction with its examination of SLIM, RCA undertook to purge records that were outside the 7-year record retention policy.

Scope and Methodology

We individually interviewed all staff involved with RCA’s “document purging project” to determine (a) their specific job functions during the project, and (b) whether they were instructed to accelerate the destruction of documents before or after October 12, 1999. The “document purging project” consists of RCA staff extracting and merging off-site storage tax payment data with on-site files, and placing duplicate documents and documents older than 7 years in a bin to be shredded in accordance with RCA’s record retention policy.

We reviewed the weekly reports prepared by the unit’s Administrative Specialist II for the period September 9, 1998 through October 26, 1999 to determine if there were any references to accelerating the document destruction project.

In addition, we obtained copies of the past two invoices from the City’s contracted on-site document shredding company. The invoices reflected the number and location of carts of RCA documents shredded and the dates they were shredded.

We also interviewed RCA officials and examined pertinent records and documents in order to examine the status of the holding account.

Summary of Findings and Recommendations

1. Credit balances in taxpayers accounts were not identified in a timely manner.

- Several pre-1994 taxpayer accounts contained credit balances dating as far back as 1985.
- Pre-1994 credit balances that were identified by RCA were put into the holding account.

Recommendations

We recommend that RCA:

- Determine what should be done with the pre-1994 taxpayer credit balances that are being held in the holding account. The decision should be based on legal advice provided by the City's Law Department and guidance from the State's Department of Revenue (DOR).
- Draft written procedures to address taxpayer overpayments resulting in credit balances. These written procedures should address the timely notification to taxpayers of an overpayment.
- Review and approve credit decisions in a timely manner.
- Obtain and review a report of all credit balances on a regular basis to ensure that credit balances are promptly addressed.

RCA Management's Response

The City has determined that under the City's tax code as it existed before 1999, RCA has no legal authority to refund taxes or license fees more than two years old that have not been previously verified as overpayments pursuant to a request for refund made within the two year limitations period. No such prohibition exists with regard to regulatory fees. Therefore, the City decided that all credits or overpayments associated with regulatory license fees prior to 1994, whether in the holding account or subsequently discovered, could be legally refunded. The City has been notified by the Washington State Department of Revenue's (DOR) Unclaimed Property Division that the State will not enforce any issue of unclaimed property prior to 1994. Nevertheless, the City will segregate all overpayments of regulatory license fees accruing prior to 1994, refund the amounts to persons it can locate, and report and send the balance to DOR's unclaimed property division according to RCW requirements. This has presently been accomplished and the amounts will be included in the November 2000 report to DOR's Unclaimed Property Division.

RCA is in the process of drafting written procedures to address the timely verification and refund of any overpayments. As part of these procedures, RCA will provide written notice to taxpayers whenever credit amounts over \$75 are identified and verified. Credit refund decisions will be reviewed in a timely manner and approved by a supervisor. Management will obtain and review a report of all credit balances on a regular basis to ensure that all credit balances have been addressed. Presently, the vast majority of account credits from 1994 through 1999 have been investigated and refunded. Documentation for the few accounts that have not been examined will be returned from the warehouse and processed within the next three months. Account credits for 2000 are presently being examined.

RCA will also promulgate a rule that contains procedures for identifying, reporting and remitting to the DOR Unclaimed Property Division verified credit balances that RCA has been unable to refund and that remain on the books after two years.

The procedures and the director's rule will be drafted by the end of October and finalized by December 15, 2000. The effective date of the rule will be January 1, 2001. The procedures, which implement the policy established by the director's rule, are effective immediately and staff are presently being trained in the new procedures.

RCA will also establish a written procedure defining RCA's records retention policy.

2. Credit balances resulting from overpaid fees were not remitted to the Washington State Department of Revenue in accordance with RCW 63.29.

RCA officials were unaware that they were required annually to report and remit unclaimed property to the State of Washington per RCW 63.29. Unclaimed property includes cash, checks, credit balances and customer overpayments. 1999 was the first time that RCA submitted an unclaimed property report to the Washington State Department of Revenue. RCA did not remit funds with this report; however, the 1999 funds were remitted to the State Department of Revenue on October 17, 2000.

Recommendations

During the course of our audit, RCA officials agreed to draft written procedures and have them reviewed by the Law Department to ensure that they properly reflected the RCW as they relate to RCA's treatment of account credit balances. Once approved by the Law Department, RCA needs to implement these written procedures and ensure that the applicable funds are reported and remitted to the State each year in accordance with RCW 63.29.

RCA Management's Response

Following the procedures mentioned in item 1 above, RCA will notify in a timely manner and refund any valid credit amounts to payers. Those credit amounts that cannot be refunded directly to the payer will be reported and remitted to the Unclaimed Property Division of the DOR pursuant to RCW 63.29. All procedures and rules established by RCA concerning the handling of credit amounts and unclaimed property will be reviewed by the Law Department to ensure correct compliance with the RCW.

Other Issues

3. The City of Seattle does not have a standardized process for remitting unclaimed property funds to the State of Washington.

The City does not know which departments are required to report unclaimed property per RCW 63.29, and currently has no means of ensuring that the City is in compliance with the State law. On November 29, 1999, RCA reported unclaimed property to the State Department of Revenue for the first time. Guidance on the Unclaimed Property Act is currently not provided to City departments. As a result, it is the departments' responsibility to be aware of the RCW and, if applicable, to prepare their own reporting mechanism. Implementation of Citywide procedures could help ensure that all City departments are properly tracking and filing unclaimed property.

Recommendations

The Executive Services Department should decide whether the City of Seattle's unclaimed property will be remitted to the State or held by the City of Seattle in the general fund as permitted by Washington State law.

Citywide procedures should be developed and implemented to ensure that all departments are filing accurate and timely unclaimed property reports.

ESD Management's Response

The Accounting Division within the Department of Finance will be asked to develop a procedure by which the Accounting Division will notify all City departments annually concerning the need to properly report unclaimed property to the DOR Unclaimed Property Division. Depending upon the nature of the unclaimed property, funds will or will not be remitted along with the annual report according to the requirements contained in RCW 63.29.